

INSTITUTIONALIZING TRAINING IN MUNICIPAL CREDIT ANALYSIS

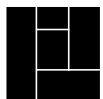
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MISSION

The purpose of this memorandum is to recommend a strategy for institutionalizing bank training capacity in the fundamental course of municipal credit analysis within Czech institutions. The authors were to comment on an institutionalization plan for Czech organizations to provide future introductory training in municipal credit analysis. The purpose of the memo changed against the backdrop of the arrangement between MUFIS, Urban Research and the Banking Institute (see Petr Tajcman memo to Dick Kezer and Ron Forbes, October 1, 1997, etc.). The authors (referred to hereafter as "the team") were told there was to be a meeting in mid-October, 1997 to establish a formal agreement between those three institutions. Therefore the team's expected role was not to make recommendations about which institutions would be best suited for this responsibility but rather to evaluate and assess the capacity of the three named institutions to provide bank training. The team also was to comment on the support that will be necessary from USAID to make the institutionalization of training a success.

HISTORY

The team views the seminar held on October 7-8, 1997 as a successful first step in the institutionalization of bank municipal credit training. For all previous seminars and similar training activities of this program the conception, organization, implementation and presentation were largely the efforts of USAID working with and through other U.S. individuals or institutions. Even when Czech institutions were involved (as the Banking Institute was involved in the successful seminar at Štírnice in January of 1996) their participation was directed by, in that case, a representative of the Urban Institute working with USAID. Similarly the curriculum for each earlier seminar was designed by U.S. participants, albeit after extensive consultation with the MUFIS banks. Furthermore, the specific course material originated in the United States.

The presenters, at least in the early seminars, were a mix of U.S. and Czech experts, but most were from the United States. Gradually, modules were added that became the "turf" of the Czech presenters. Examples would be the fine presentation of the computer model by Zdena Matoušková and the description of the legal issues in municipal lending by Tomas Zagar of White & Case. Still, the scheduling and, to some extent, the content of these presentations and how they integrated into the rest of the seminar were the responsibility of the U.S. organizers.

URBAN RESEARCH

It is also true that over time and gradually, the support work necessary in Prague shifted from the USAID office to Urban Research. In most of the several seminars arranged for individual banks, there was a long list of important responsibilities assigned to Urban Research. Attached as an appendix to this report is a "to do" list prepared for the CSOB seminar presented in late March, 1997 in Celakovice which illustrates of the scope of responsibilities and the tasks assigned to Urban Research in one recent bank seminar.

Urban Research personnel have also been in attendance at all of the seminars since May, 1995. Urban Research has been an important part of the team in presenting the seminars but always participating at the direction of other institutions.

The October, 1997 seminar was different. There was no involvement of USAID personnel at all. Seminar organization was handled largely by Urban Research, although using the general template of earlier seminars. The content of the course material for the Credit Analysis module was more collaborative than in the past, and of the four modules, only one (although a full day) was given by U.S. presenters. The other three modules were the computer model, legal issues and a discussion of the MUFIS program, all presentations made by Czechs. The entire seminar was captured on audio/visual tape for future viewing and can be used as a tool to train future trainers.

In preparation for the next step, Urban Research has contacted candidates to be future lecturers. Two of these individuals—Tatana Vitova, Magistrate of Plzen and Doc. Ing. Jitka Pekova, faculty member of the Economic University—attended parts of the October seminar. A future role for Ms. Vitova was not discussed, although she clearly is a very competent professional. We did have a chance to meet with Ms. Pekova, along with Zdena, to get their thoughts on changes in future seminars.

Following a general discussion of curriculum changes amongst Ms. Pekova, Zdena, Ron and Dick, we collectively concluded that the content of future seminars should be changed to:

- Bulk up the discussion of Czech municipal budget structure, with emphasis on changes in budget rules that went into effect in 1997.
- Parse the financial statements to describe the sources of revenues for municipalities.
- Reduce or eliminate the time spent on general overview of credit analysis.
- Keep the case studies and break-out groups, but increase the complexity of the data used in the case studies to correspond fully to actual municipal budgets.



Following this discussion we also concluded that the curriculum, when revised, might look something like this:

- (1) A presentation of local budgets and where the budget numbers come from.
- (2) A discussion of the Municipal Act, the law that defines what a municipality is and what are its duties.
- (3) An abbreviated general credit overview.
- (4) A presentation of the computer model, fully updated for 1997 changes in budgetary structure.
- (5) The presentation and discussion of the case studies.
- (6) A presentation of the legal issues involved in municipal lending.

[Depending upon whether the seminar is offered specifically to new banks joining MUFIS, there could also be a module (7) describing the MUFIS program.]

Since one concept behind these seminars is to emphasize lending against future revenues, we asked Ms Bekova how she felt about lending that did not involve collateral. She said she agreed with the principle and had already had some discussions with Zdena on the subject.

One other observation should be mentioned. Both Ms. Bekova and Zdena were enthusiastic about keeping the case studies as part of the curriculum. However, neither appeared completely comfortable with the case study method nor familiar with the necessary link between credit analysis and decision making on loan applications. It is, of course, necessary to focus on the risk revealed in the credit analysis in reaching a credit decision. After some discussion it was collectively concluded that they (Ms. Pekova and Zdena) would require help in preparing and presenting the case studies for at least the next seminar. It was concluded that, at least for the next time, there is a need to consider a cooperative arrangement in preparing, presenting and discussing the case studies.

Urban Research mentioned a third faculty member coming from Czech-Moravian Bank but this was never made specific nor was any name suggested.

Other aspects of the transition need clarification. The process of curriculum development is an open issue. Nor is it clear exactly how the three new Czech presenters will integrate with those already part of the seminar team. However, that is a problem that can be worked out once the decision on structure has been made. Who will make sure that Ms. Peckova et al will instruct in the manner that USAID finds acceptable is another issue.

In conclusion it would appear that the bulk of the work under the new arrangement will be up to Urban Research. They will have the responsibility to do everything they did for the October seminar plus

several additional responsibilities. Can they do it? Past evidence would suggest that they are capable of fulfilling their responsibilities, but they must learn to anticipate problems well in advance and work hard on the details. No other institution will be in a position to remind them of things that have not been done that need to get done. To grow into that kind of responsibility will be crucial to the success of future seminars.

BANKING INSTITUTE

The team met with Ing. Josef Janca, Head of Education Department and Ms. Bezjeckova, Project Manager of the Banking Institute (BI) to discuss their understanding of their role in the new arrangement. Janaca said he had already informed his management that preliminary talks had taken place and he expected these would be finalized by mid-November. Here again the relationship of the BI to the seminars is not a new one, but their responsibilities will increase. For example, the BI will now be responsible for “marketing” the seminar. They will do this in several ways. The first will be to include a description of the course in their curriculum book. This book is published twice yearly. The deadline for the January to June offerings was October 30 for a November publication. The next deadline is April 30 for a June publication of the offerings for July to December, 1998. Courses that are offered in between these publications are included in an advertisement called the *Economic Daily* covering the next month's schedule. Curriculum choices are also offered on the internet.

The curriculum book is mailed to:

- All commercial banks
- Investment banks
- Leasing companies
- Brokerage firms
- Major corporations
- Government ministries and agencies

So it may be possible that in the future there will be a broader range of participants, unless a decision is made to limit the offering to banks. Follow-up was not mentioned and it is assumed that if a course draws insufficient interest, it is simply canceled (Janca was asked who, under the new arrangement, would have the “go/no-go” authority on this seminar and it was very clear from his response that he would).

Seminar costs were also addressed. Assuming the seminars are held on the premises of the BI, they charge a flat rate per participant to cover their costs of rent, salaries, printing, telephone etc. They have one conference room that can accommodate 35 “comfortably.” Typical charges are 3,000 to 3,500 Kc for a 1 ½ day seminar and 2,600 to 3,000 Kc for a full day seminar. Commercial banks are entitled to a 5 percent discount. *It is critical at this point for someone to pencil in all the anticipated expenses of a 1 ½ day seminar to make sure the price is within what banks and others might be willing to pay.* Included should be the BI fee charge and all the UR expenses for updating and producing the course material and the expenses of the faculty.

USAID should consider whether a one-time investment in future training capacity for these courses is warranted. USAID, for example, could cover the costs of fully updating the case studies and other course material, as well as the computer model, and of training the new trainers in the use of case studies and small-group discussion as instruction techniques.

Janca raised the copyright issue. Apparently, local training institutions send people to BI courses to pirate course books and then put on their own seminars. To copyright course material is almost impossible, each page must be registered as must subsequent alterations to that page. Of course, material prepared under USAID contracts cannot be copyrighted. The BI controls the problem through screening of participants and a blanket understanding with major institutions. What UI or USAID may want to do about this issue is open to suggestion.

MUFIS

What role, if any, MUFIS will play in this new arrangement is not at all clear. Mr. Vanilk of MUFIS gave a good presentation at the seminar in October and the MUFIS name was prominent on the cover of the course material. But in terms of specific advice or guidance on the content or organization of the seminar, MUFIS made no contributions. Indeed, in an interview about the new arrangement, Mr. Macka made clear that, though he strongly favored the idea of turning over the training seminars to Czech presenters, MUFIS was not in a position to dedicate staff (which MUFIS does not have) or money (the only costs they are allowed to incur are those related to the HG program). Since there was no opportunity to get involved financially or to dedicate staff time, he suggested that MUFIS might “lend our name” and some seminars could take place under the auspices of MUFIS. He did volunteer that the Czech-Moravian Bank might become part sponsor (some seminars are organized on a purely commercial basis and others receive payments from “sponsors”). Macka said he was willing to “help” the transfer to local hands.

CONCLUSION

All of the “partners” in the new arrangement—MUFIS, Urban Research and the Banking Institute—have experience and a long history with the bank seminars on municipal credit analysis. Their experience does not run, however, to managing the process from beginning to end. All, but especially Urban Research, will be playing new and expanded roles once the U.S. participants withdraw. But aside from this loose confederation of three institutions (one of which, MUFIS, sees little involvement for itself) there seems to have been little specific planning for the transition. It appears that at this point none of the details of the transition have been formulated on paper. This is not fatal to the success of the transition because the next seminar will not be given for some months, but more attention has to be given to the details and they must be written down and approved by the participants to avoid future confusion.

The role of MUFIS is not clear but the general division of responsibility beyond that seems to be that the Banking Institute will be responsible for advertising or “marketing” the course, tracking responses, distribution of course material and making the arrangements for the site of the seminar, audio-visual

equipment, coffee breaks, papers, pencils, flip charts and all the physical accouterments of any similar seminar. Urban Research will have the responsibility for course content, preparation of course materials, keeping the material current and relevant, lining up the presenters, preparing the presenters, scheduling presenters, and coordinating with the BI on all seminar needs.

RECOMMENDATIONS

USAID has several options at this point. The most pertinent are:

- (1) To announce that after three years and many successful bank seminars USAID support is being withdrawn and the Czech institutions that have been involved in the seminars can carry on, but on their own;
- (2) To engage in a “training of trainers” activity designed to make the Czech presenters more comfortable with case-study instruction, to adjust the presentation to fit financial organizations other than banks or MUFIS participants, to update all course materials etc; *OR*
- (3) To have the Czech institutions manage the next seminar and make the presentations but to have U.S. personnel available as advisors on an as-needed basis from the United States in preparing for the seminar, and as resource people at the seminar itself. After this transition, the seminars would be turned over fully to the Czech institutions.

The team recommends some combination of numbers (2) and (3).

Consideration might also be given to creating a Board of Advisors with the U.S. presenters as members along with representatives from Ceska Sporitelna, CSOB, Komerčni and other banks active in municipal lending, as well as some of the principal participants in the municipal bond market. The purpose would be guidance on course curriculum, monitoring presenters and generally assuring that the course material is current, relevant and well presented. Beyond the basic training course, there is likely to be demand for more advanced and specialized training. The Board of Advisors could help identify further training needs.

There is considerable preparation to be undertaken under any scenario. The Immediate tasks include the following, to be carried out by Urban Research:

- Put together a detailed strategy on how the transition will take place.
- Put together a new curriculum based on the ideas of the new faculty (there was some discussion of this in Prague but it should be presented in more detail).
- Assemble all the costs associated with a seminar (less the costs of U.S. participants) and compare the final cost to the cost of other BI seminars.



USAID should decide how much money it is willing to allocate to make the future seminars a success. Several questions need to be addressed before additional steps are taken. Will USAID finance collaboration between the old presenters and the new group of presenters to prepare new course material and a revised curriculum? Will USAID finance the work required to update old case studies and/or the work to prepare new case studies that are more complex? Will USAID finance U.S. participation on an advisory and/or partial participatory basis? Will USAID finance “training of trainers?” Will USAID underwrite the difference between the cost of this seminar and similar seminars offered by the BI, if the cost is found to be higher than the BI norm? (Most BI training courses involve a single individual as presenter.)

APPENDIX

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To: Ron Forbes
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George Peterson
Fred Van Antwerp

Subject: CSOB Seminar

We first met with Jan Blaho and Jan Pesek of CSOB on October 2, 1996 and discussed the possibility of an individual training seminar on municipal credit analysis for their bank. We gave them a copy of the course material for the IBP seminar, scheduled for later that same week. In early November we heard from the bank that they wanted the training for approximately 30 of the bank's employees. The list of subjects for the seminar were those in the foreword to the IBP material. Following two meetings with the bank, one on December 12, 1996 and one on January 13, 1997, we are now scheduled to provide a training seminar to CSOB at the Czech Management Center in Celakovice on March 24, 25 and 26, 1997. These dates were chosen by the bank after the dates originally chosen by Mr. Jan Pesek at the meeting in January were found not to work. The bank has indicated again that there will be 25-30 of its employees at the seminar. Two will be from the bond department and the balance will come from the branch system. Since the bank loan department has made only one municipal loan, none are skilled in municipal credit analysis but all have had some experience in corporate credit analysis.

The content of the seminar will be similar to the 2 ½ day training sessions held at Štirin in January, 1996 and at other individual banks since then. This seminar will be one half day shorter, so some adjustments will be made in the order and content of course material. We also plan to demonstrate a computer model that provides users with the capability to perform a wide variety of analytical tasks in assessing municipal credit risk. We plan to use Zdena Matouskova as a participant in some of the discussions and to demonstrate the Credit Finance Model.

Since we have all been through this routine several times, it should be clear what the responsibilities of each has been and will be. This list is provided simply as a reminder of what has worked in the past.

■ **Tentative Schedule:** Ron Forbes and Dick Kezer will be the presenters from the United States. Hotel reservations have already been made to check in on March 22 out on March 24, in on March 26 and

out on March 28. This leaves Friday, March 27 for follow up on other projects. A schedule of a half day in the p.m. on Monday, March 24, a full day on the 25th, and a half day in the a.m. on the 26th has been suggested to the bank in the confirmation letter.

USAID PRAGUE

- Review and comment on the confirmation letter to be sent to CSOB.
- Review and comment on the list of institutional responsibilities (this "to do" list).
- UR will translate the confirmation letter and send the Czech version to USAID to be signed and transmitted to CSOB (either by messenger or fax followed by the original letter).
- Confirm reservations at the Hotel Inter Continental for Forbes and Kezer.
- If desired, introduce the seminar on the morning of the first day.
- If desired, close the seminar on the morning of the last day.

RON FORBES

- Review the IPB et al disks to see what changes are required in the case studies and what additions need to be made of material added for IPB and CS seminars.
- Review the IPB et al disks to see what changes are required in the work sheets.
- Include the USAID introductory forward in the course material.
- Send the new and/or revised material to Urban Research (Zdena Matouskova) for translation to Czech with instructions for inclusion in existing material.....all material to be sent ASAP but no later than March 1.
- Initiate daily calls to UR to describe work to be done with subsequent calls to check on the progress of the work.
- Satisfy himself that all the changes and new material have been translated and properly integrated with the old material.
- Make sure that the printing of the completed package is in satisfactory form.
- Make certain that all the necessary transparencies have been prepared in Czech.



- Satisfy himself that the course material and training schedule are being sent on time and to the right parties.
- Consult with Zdena about her role as presenter to demonstrate the analytical model and make sure that she is available when needed.
- Consult with Zdena about the kind of equipment needed to best demonstrate the analytical model and make sure either that this equipment is available at the training site or is available through UR for use at the training site.....in earlier seminar Zdena used transparencies and an overhead projector.

URBAN RESEARCH

- Since we will be asking CSOB to be doing some things for us, establish contact with the bank.....the contact will be Ms. Jarmila Hruskova (tel # 61 35 30 87).
- Get a current estimate of the number of participants the bank intends to send.....early estimates were 25/30.
- RFK will draft a letter to the bank confirming details.....UR to translate and send to USAID Prague for signing and transmittal to CSOB.
- Ask if the bank wants any help in drafting the letter of invitation to the bank employees who will be the participants.....if it does, relay the info to RFK who will draft whatever is necessary.
- Ms. Zdena Matouskova to receive the course material from Ron Forbes.
- Arrange for the translation of those changes and new materials that are in English into Czech.
- Arrange for a check on the accuracy of the translated material.
- Negotiate the contract with two interpreters.....I have asked that UR contact Lena Adamcova and Marta Nedvedicka with Zoltan Kalman as the next choice.....some formal, signed agreement should be made so we do not face the problem of interpreters canceling at the last minute.
- Coordinate with CSOB on transportation from Prague to Celakovice for our group.....tentatively two presenters, two interpreters and two from UR.
- Coordinate with CSOB on room and meal accommodations for our group at the Czech Management Center.....we agreed in the confirmation letter to pay all expenses of our group of six.

- The U.S. presenters will want to meet with the interpreters prior to the seminar to review the material prior to the seminar.....since this material will not be new to the interpreters this need not be a long meeting but UR to set a time and place where this meeting can take place.
- When Ron is convinced that all the material has been properly translated and the case studies, work sheets and new materials have been properly packaged, arrange for the printing of the course material.....we will need 50 copies of the Czech version and 10 copies of the English version.
- Ask the bank where and to whom the course materials should be delivered.....we will want the material to be in the hands of the participants not later than Friday, March 21.....we could make a bulk delivery to the bank in Prague.....or, if they ask us to deliver the material to the individual participants we will need very precise information on names and addresses.....Urban Research should investigate, again, the best way to make the deliveries outside of Prague.....discuss options with Urban Institute.
- Arrange to deliver one copy to each of the interpreters by Friday, March 21.
- Other copies of the Czech version should be delivered as follows: Ron Forbes-15; USAID Prague-1; Urban Institute-1; Urban Research-1.
- Deliver the English versions as follows: Ron Forbes-5; USAID Prague-1; Urban Institute-1; Urban Research-1.
- Prepare overhead transparencies in Czech for use in the presentation of the course as requested by Ron Forbes.....deliver to Ron Forbes in Prague.
- Prepare three sets of disks with the final Czech and English versions of the case studies, work sheets and new material.....UR should keep one set, one is for Ron Forbes and one should be mailed to the Urban Institute.
- Collect the participant biographies requested in the letter to CSOB, translate into English and make these available to Ron Forbes as soon as possible.
- Prepare evaluation forms for distribution (using the same form that was used at the earlier individual seminars) to all bank participants at the closing session.
- At the closing session, distribute the evaluation forms, collect the completed forms from the participants, tabulate the responses and send the results (in English) to USAID (Van Antwerp), Urban Institute (Peterson) and each of the U.S. presenters.
- Obtain from CSOB a list of the people that the bank feels successfully completed the course.....complete the Certificates of Achievement (a supply of blanks should be on hand from the last printing) and deliver as CSOB directs.



URBAN INSTITUTE

- Identify who will be the Institute's general resource and problem solver for this seminar. Name, tel, fax, e-mail.
- Review and comment on the confirmation letter to be sent to CSOB.
- Review and comment on the list of institutional responsibilities (this "to do" list).
- Follow-up with USAID Prague on Prague hotel reservations.....These reservations were made on January 17 by RFK for Forbes and Kezer.....USAID has been asked verbally to confirm so we can receive government rates.
- Make sure Kezer and Forbes have country clearance for the dates indicated.
- Discuss with UR the options for delivery of course material outside of Prague, if necessary.
- If required, print certificates of achievement (in Czech) designed for earlier individual seminars for award to participants.....send certificates to UR to enter the names of those successfully completing the seminar.

DICK KEZER

- Draft a confirming letter to the bank that will include all specifics including a summary of the course material and a list of required teaching aids.....send the letter to UR by March 18 for translation and delivery to USAID Prague.
- Draft a list of institutional and personal responsibilities (this "to do" list) and distribute by March 19.
- Contact Tomas Zagar of White & Case to ask if he will participate in the seminar.
- If UR determines that CSOB needs help in letter to participants, draft what is necessary.
- Coordinate the activities of all of the above.
- At the conclusion of the seminar prepare a summary of the course, who attended, lessons learned, etc.